

Senate Bill No. 2

CHAPTER 447

An act to amend Sections 2051.5, 10089.70, 10089.79, 10089.80, and 10089.82 of, and to add Sections 124.5, 1749.85, and 2060 to, and to repeal Section 10089.84 of, the Insurance Code, relating to homeowners' insurance.

[Approved by Governor September 30, 2005. Filed with
Secretary of State September 30, 2005.]

LEGISLATIVE COUNSEL'S DIGEST

SB 2, Speier. Homeowners' insurance: valuation: continuing education.

Existing law requires an applicant for a fire and casualty broker-agent license to complete courses in a prelicensing curriculum, and to pass an examination. Existing law requires fire and casualty broker-agents to meet specified continuing education requirements.

This bill would require the curriculum committee of the Department of Insurance, in 2006, to make recommendations to the Insurance Commissioner to instruct fire and casualty broker-agents and personal lines broker-agents, and applicants for fire and casualty and personal lines broker-agent licenses, in proper methods of estimating the replacement value of structures, and of recommending appropriate levels of coverage under a homeowners' insurance policy.

Existing law provides that, under a specified type of homeowners' insurance policy, when a state of emergency has been declared, no time limit of less than 24 months from the date that the first payment toward the actual cash value is made shall be placed upon an insured in order to collect the full replacement cost of the loss, subject to the policy limit.

This bill would provide, in addition, as of January 1, 2007, that if a state of emergency has been declared, coverage for additional living expenses shall be for a period of 24 months, but shall be subject to other policy provisions, provided that any extension of time beyond the period provided in the policy shall not act to increase the additional living expense policy limit in force at the time of the loss.

The bill would require an insurer, in the event of a loss under a homeowners' insurance policy for which the insured has made a claim for additional living expenses, to provide the insured with a list of items that the insurer believes may be covered under the policy as additional living expenses.

Existing law establishes, until January 1, 2008, a mediation program for disputes arising out of certain auto insurance, earthquake insurance, and homeowners' insurance claims.

This bill would make this program permanent, and would make specified changes to the homeowners' and earthquake claims to which it

applies. The bill would make certain other changes to the provisions governing the mediation program.

The bill would incorporate changes made by SB 518 that would become operative if both bills are enacted and this bill is enacted after SB 518.

The people of the State of California do enact as follows:

SECTION 1. Section 124.5 is added to the Insurance Code, to read:

124.5. "Homeowners' insurance" means insurance covering the risks described in subdivision (a) of Section 675.

SEC. 2. Section 1749.85 is added to the Insurance Code, to read:

1749.85. (a) The curriculum committee shall, in 2006, make recommendations to the commissioner to instruct fire and casualty broker-agents and personal lines broker-agents and applicants for fire and casualty broker-agent and personal lines broker-agent licenses in proper methods of estimating the replacement value of structures, and of explaining various levels of coverage under a homeowners' insurance policy. Each provider of courses based upon this curriculum shall submit its course content to the commissioner for approval.

(b) A person who is not an insurer underwriter or actuary or other person identified by the insurer, or a licensed fire and casualty broker-agent, personal lines broker-agent, contractor, or architect shall not estimate the replacement value of a structure, or explain various levels of coverage under a homeowners' insurance policy.

SEC. 3. Section 2051.5 of the Insurance Code is amended to read:

2051.5. (a) Under an open policy that requires payment of the replacement cost for a loss, the measure of indemnity is the amount that it would cost the insured to repair, rebuild, or replace the thing lost or injured, without a deduction for physical depreciation, or the policy limit, whichever is less.

If the policy requires the insured to repair, rebuild, or replace the damaged property in order to collect the full replacement cost, the insurer shall pay the actual cash value of the damaged property, as defined in Section 2051, until the damaged property is repaired, rebuilt, or replaced. Once the property is repaired, rebuilt, or replaced, the insurer shall pay the difference between the actual cash value payment made and the full replacement cost reasonably paid to replace the damaged property, up to the limits stated in the policy.

(b) (1) No time limit of less than 12 months from the date that the first payment toward the actual cash value is made shall be placed upon an insured in order to collect the full replacement cost of the loss, subject to the policy limit. Additional extensions of six months shall be provided to policyholders for good cause. In the event of a covered loss relating to a "state of emergency," as defined in Section 8558 of the Government Code, no time limit of less than 24 months from the date that the first payment toward the actual cash value is made shall be placed upon the insured in

order to collect the full replacement cost of the loss, subject to the policy limit. Nothing in this section shall prohibit the insurer from allowing the insured additional time to collect the full replacement cost.

(2) In the event of a covered loss relating to a “state of emergency,” as defined in Section 8558 of the Government Code, coverage for additional living expenses shall be for a period of 24 months, but shall be subject to other policy provisions, provided that any extension of time required by this paragraph beyond the period provided in the policy shall not act to increase the additional living expense policy limit in force at the time of the loss. This paragraph shall become operative on January 1, 2007.

(c) In the event of a total loss of the insured structure, no policy issued or delivered in this state may contain a provision that limits or denies payment of the replacement cost in the event the insured decides to rebuild or replace the property at a location other than the insured premises. However, the measure of indemnity shall be based upon the replacement cost of the insured property and shall not be based upon the cost to repair, rebuild, or replace at a location other than the insured premises.

(d) Nothing in this section shall prohibit an insurer from restricting payment in cases of suspected fraud.

(e) The changes made to this section by the act that added this subdivision shall be implemented by an insurer on and after the effective date of that act, except that an insurer shall not be required to modify policy forms to be consistent with those changes until July 1, 2005. On and after July 1, 2005, all policy forms used by an insurer shall reflect those changes.

SEC. 4. Section 2060 is added to the Insurance Code, to read:

2060. In the event of a loss under a homeowners’ insurance policy for which the insured has made a claim for additional living expenses, the insurer shall provide the insured with a list of items that the insurer believes may be covered under the policy as additional living expenses. The list may include a statement that the list is not intended to include all items covered under the policy, but only those that are commonly claimed, if this is the case. If the department develops a list for use by insurers, the insurer may use that list.

SEC. 5. Section 10089.70 of the Insurance Code is amended to read:

10089.70. (a) The department shall establish a program for the mediation of the disputes between insured complainants and insurers arising pursuant to any of the following:

(1) A claim that arises under a homeowners’ insurance policy and that involves loss due to a fire for which the Governor has declared a state of emergency pursuant to Section 8558 of the Government Code. The department may refer to mediation any dispute covered by this paragraph in which the parties to the contract wish to discuss possible payments beyond policy limits.

(2) A claim that arises under a policy covering earthquake damage and that involves loss due to an earthquake for which the Governor has declared a state of emergency pursuant to Section 8558 of the Government

Code. With respect to disputes arising under this paragraph, the program shall apply only to personal lines of insurance related to residential coverage.

(3) A claim that arises under automobile collision coverage or automobile physical damage coverage, in a policy as defined in Section 660.

(b) The goal of the program shall be to favorably resolve a statistically significant number of disputes sent to mediation under the program. This section shall not apply to any dispute that turns on a question of major insurance coverage or a purely legal interpretation, or any dispute involving the actions of an agent or broker in which the insurer is not alleged to have been responsible for the conduct, or any complaint the commissioner finds to be frivolous, or any dispute in which a party is alleged to have committed fraud.

SEC. 6. Section 10089.79 of the Insurance Code is amended to read:

10089.79. (a) The costs of mediation shall be reasonable, and shall be borne by the insurer, except as provided in Section 10089.81. The commissioner may set a fee not to exceed one thousand five hundred dollars (\$1,500) for each homeowners' or earthquake coverage dispute mediated pursuant to this chapter, and seven hundred dollars (\$700) for each automobile coverage dispute mediated pursuant to this chapter.

(b) The administrative expenses for the mediation program shall be paid from existing resources available to the department. If additional resources are required by the department, those resources shall be made available by an annual appropriation in the Budget Act.

SEC. 7. Section 10089.80 of the Insurance Code is amended to read:

10089.80. (a) The representatives of the insurer shall know the facts of the case and be familiar with the allegations of the complainant. The insurer or the insurer's representative shall produce at the settlement conference a copy of the policy and all documents from the claims file relevant to the degree of loss, value of the claim, and the fact or extent of damage. For disputes mediated pursuant to paragraph (1) of subdivision (a) of Section 10089.70, the department shall refer to mediation issues related to the settlement of the claim. The insured and insurer shall produce, to the extent available, documents relevant to the successful mediation of the claim, including documents related to the degree of loss, the value of the claim, and the fact or extent of damage.

The mediator may also order production of other documents that the mediator determines to be relevant to the issues under mediation. If a party declines to comply with that order, the mediator may appeal to the commissioner for a determination of whether the documents requested should be produced. The commissioner shall make a determination within 21 days. However, the party ordered to produce the documents shall not be required to produce while the issue is before the commissioner in this 21-day period. If the ruling is in favor of production, any insurer that is subject to an order to participate in mediation issued under subdivision (a) of Section 10089.75 shall comply with the order to produce. Insureds, and

those insurers that are not subject to an order to participate in mediation, shall produce the documents or decline to participate further in the mediation after a ruling by the commissioner requiring the production of those other documents. Declination of mediation by the insurer under this section may be considered by the commissioner in exercising authority under subdivision (a) of Section 10089.75.

The mediator shall have the authority to protect from disclosure information that the mediator determines to be privileged, including, but not limited to, information protected by the attorney-client or work-product privileges, or to be otherwise confidential.

(b) The mediator shall determine prior to the mediation conference whether the insured will be represented by counsel at the mediation. The mediator shall inform the insurer whether the insured will be represented by counsel at the mediation conference. If the insured is represented by counsel at the mediation conference, the insurer's counsel may be present. If the insured is not represented by counsel at the mediation conference, then no counsel may be present.

(c) Section 703.5 and Chapter 2 (commencing with Section 1115) of Division 9 of the Evidence Code apply to a mediation conducted under this chapter.

(d) The statements made by the parties, negotiations between the parties, and documents produced at the mediation are confidential. However, this confidentiality shall not restrict the access of the department to documents or other information the department seeks in order to evaluate the mediation program or to comply with reporting requirements. This subdivision does not affect the discoverability or admissibility of documents that are otherwise discoverable or admissible.

SEC. 8. Section 10089.82 of the Insurance Code is amended to read:

10089.82. (a) An insured may not be required to use the department's mediation process. An insurer may not be required to use the department's mediation process, except as provided in Section 10089.75.

(b) Neither the insurer nor the insured is required to accept an agreement proposed during the mediation.

(c) If the parties agree to a settlement agreement, the insured will have three business days to rescind the agreement. Notwithstanding Chapter 2 (commencing with Section 1115) of Division 9 of the Evidence Code, if the insured rescinds the agreement, it may not be admitted in evidence or disclosed unless the insured and all other parties to the agreement expressly agree to its disclosure. If the agreement is not rescinded by the insured, it is binding on the insured and the insurer, and acts as a release of all specific claims for damages known at the time of the mediation presented and agreed upon in the mediation conference. If counsel for the insured is present at the mediation conference and a settlement is agreed upon that is signed by the insured's counsel, the agreement is immediately binding on the insured and may not be rescinded.

(d) This section does not affect rights under existing law for claims for damage that were undetected at the time of the settlement conference.

(e) All settlements reached as a result of department-referred mediation shall address only those issues raised for the purpose of resolution. Settlements and any accompanying releases are not effective to settle or resolve any claim or dispute not addressed by the mediator for the purpose of resolution, nor any claim that the insured may have related to the insurer's conduct in handling the claim. However, for mediations conducted pursuant to paragraph (1) of subdivision (a) of Section 10089.70, the insurer and insured may agree to a complete settlement and release of all disputes related to the claim, including any claim the insured may have related to the insurer's conduct in handling the claim, provided the legal effect of the release is disclosed and fully explained to the claimant by the mediator.

Referral to mediation or the pendency of a mediation under this article is not a basis to prevent or stay the filing of civil litigation arising in whole or in part out of the same facts. Any applicable statute of limitations is tolled for the number of days beginning from the notification date to the insurer pursuant to Section 10089.72, until the date on which the mediation is either completed or declined, or the date on which the insured fails to appear for a scheduled mediation for the second time, or, in the event that a settlement is completed, the expiration of any applicable three business day cooling off period.

SEC. 8.5. Section 10089.82 of the Insurance Code is amended to read:

10089.82. (a) An insured may not be required to use the department's mediation process. An insurer may not be required to use the department's mediation process, except as provided in Section 10089.75.

(b) Neither the insurer nor the insured is required to accept an agreement proposed during the mediation.

(c) If the parties agree to a settlement agreement, the insured will have three business days to rescind the agreement. Notwithstanding Chapter 2 (commencing with Section 1115) of Division 9 of the Evidence Code, if the insured rescinds the agreement, it may not be admitted in evidence or disclosed unless the insured and all other parties to the agreement expressly agree to its disclosure. If the agreement is not rescinded by the insured, it is binding on the insured and the insurer, and acts as a release of all specific claims for damages known at the time of the mediation presented and agreed upon in the mediation conference. If counsel for the insured is present at the mediation conference and a settlement is agreed upon that is signed by the insured's counsel, the agreement is immediately binding on the insured and may not be rescinded.

(d) This section does not affect rights under existing law for claims for damage that were undetected at the time of the settlement conference.

(e) All settlements reached as a result of department-referred mediation shall address only those issues raised for the purpose of resolution. Settlements and any accompanying releases are not effective to settle or resolve any claim or dispute not addressed by the mediator for the purpose of resolution, nor any claim that the insured may have related to the insurer's conduct in handling the claim. However, for mediations

conducted pursuant to paragraph (1) of subdivision (a) of Section 10089.70, the insurer and insured may agree to a complete settlement and release of all disputes related to the claim, including any claim the insured may have related to the insurer's conduct in handling the claim, provided the legal effect of the release is disclosed and fully explained to the claimant by the mediator.

Referral to mediation or the pendency of a mediation under this article is not a basis to prevent or stay the filing of civil litigation arising in whole or in part out of the same facts. Any applicable statute of limitations or limitation on the insured's right to sue as set forth in Section 2071 is tolled for the number of days beginning from the notification date to the insurer pursuant to Section 10089.72, until the date on which the mediation is either completed or declined, or the date on which the insured fails to appear for a scheduled mediation for the second time, or, in the event that a settlement is completed, the expiration of any applicable three business day cooling off period.

SEC. 9. Section 10089.84 of the Insurance Code is repealed.

SEC. 10. Section 8.5 of this bill incorporates amendments to Section 10089.82 of the Insurance Code proposed by both this bill and SB 518. It shall only become operative if (1) both bills are enacted and become effective on or before January 1, 2006, (2) each bill amends Section 10089.82 of the Insurance Code, and (3) this bill is enacted after SB 518, in which case Section 8 of this bill shall not become operative.